

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07
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FM AMEMBASSY COLOMBO
TO SECSTATE WASHDC 8931
INFO AMEMBASSY DACCA
AMEMBASSY ISLAMABAD
AMEMBASSY KATHMANDU
AMEMBASSY NEW DELHI

C O N F I D E N T I A L SECTION 1 OF 2 COLOMBO 4791

E.O. 11652: GDS
TAGS: PFOR, PGOV, PINT, PINS, EGEN, EAID, CE

SUBJ: SRI LANKA: FOUR MONTHS OF NEW GOVERNMENT

1. COMMENT: MODEST DIRECT AMERICAN INTERESTS IN SRI LANKA ARE NOT LIKELY TO BE AFFECTED BY PRIME MINISTER JAYEWARDENE'S EMERGING POLICIES. HOWEVER, SUCCESS OF JAYEWARDENE'S EFFORTS TO PROMOTE ACCELERATED ECONOMIC GROWTH AND JOB CREATION WOULD CONTRIBUTE TO POLITICAL EFFECTIVENESS AND THE STABILITY OF HIS REASONABLY DEMOCRATIC REGIME. ON BALANCE, WE THINK THE GOVERNMENT WILL BE ABLE TO PULL OFF CUTTING THE FOOD RATION IN HALF AND OPENING THE SYSTEM TO MORE DIRECT ECONOMIC FORCES. TOGETHER BOTH WOULD BE MAJOR ACHIEVEMENTS. AS FOR THE REST, MUCH WILL DEPEND ON CONTINUED CABINET SOLIDARITY, THE SUPPORT TO BE PROVIDED BY OUTSIDE DONORS AND LENDERS, THE PACE THE GOVERNMENT ACTUALLY MAINTAINS, AND THE ENERGY AND CAPACITY IT MANAGES TO INFUSE INTO THE HITHERTO LETHARGIC BUREAUCRACY. END COMMENT.

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2. DECEMBER ATMOSPHERE
THE GOVERNMENT IS WORRIED ABOUT THE POLITICAL REPERCUSSIONS OF ITS NEW BUDGET, PARTICULARLY HALVING THE NUMBERS WHO RECEIVE FOOD RATIONS AND THE SHORT-RUN SIDE EFFECTS OF DEVALUATION AND PERMITTING EASIER IMPORTS. IT EXPECTS JANUARY TO BE THE MONTH OF CRUNCH.

3. PRECAUTIONS BEING TAKEN

(A) A SHAKE-UP IN THE POLICE IS UNDERWAY IN AN EFFORT TO STIFFEN ITS CAPACITY AFTER ITS VERY POOR PERFORMANCE IN AUGUST COMMUNAL RIOTS. MAJOR CHANGES IN POLICE PERSONNEL AND STYLE IN JAFFNA HAVE BEEN EFFECTED IN AN EFFORT TO INSURE AGAINST A REPETITION OF AUGUST'S ACCIDENT WHICH COULD SPARK A SECOND ROUND OF COMMUNAL DISTURBANCES THAT WOULD BE ALL THE MORE EXPLOSIVE IF THEY OCCURRED IN CONJUNCTION WITH THE APPLICATION OF THE NEW BUDGET.

(B) A SIMILAR SHAKE-UP IN THE SRI LANKA ARMY IS UNDERWAY. IT MAY BE RECALLED THAT DURING THE AUGUST COMMUNAL RIOTS, QUESTIONS WERE RAISED CONCERNING THE LOYALTY OF CERTAIN ELEMENTS OF THE ARMY TOWARDS THE THEN NEW GOVERNMENT. IN EARLY DECEMBER 1977, THE REPLACEMENT OF ARMY OFFICERS IN KEY POSITIONS WITH OFFICERS KNOWN TO BE SYMPATHETIC TOWARDS THE NEW GOVERNMENT BEGAN.

(C) WHILE POLITICAL PARTY MEETINGS HAVE NOT BEEN BANNED, POLITICAL DEMONSTRATIONS IN STREET PROCESSIONS HAVE BEEN ON GROUNDS THEY WASTE "POLICE RESOURCES" BUT OBVIOUSLY TO PREVENT A RECURRENCE IN JANUARY OF THE POLITICALLY INSPIRED DISRUPTIONS THAT OCCURRED WHEN THE RICE RATION WAS REMOVED IN 1953 OR SHARPLY REDUCED IN 1964.

(D) THE GOVERNMENT IS ACTIVELY DISCREDITING THE BANDARANAIKE REGIME AND ITS LEADERSHIP FAMILY BY PRODUCING "EVIDENCE" PURPORTING TO SHOW LARGE-SCALE MISUSE OF GOVERNMENT AUTHORITY FOR PERSONAL ADVANTAGE, INCLUDING FALSE REPORTING OF LAND

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EVALUATION PRIOR TO CLAIMING COMPENSATION FOR NATIONALIZED PROPERTIES. THIS SEEMS DESIGNED TO WEAKEN THEIR LONG-RUN POLITICAL CHANCES FOR A COMEBACK BUT ALSO WILL PREVENT THEM FROM PROVIDING A LEADERSHIP FOCUS FOR MORE ACTIVE PROTESTS WHEN THE RATION IS WITHDRAWN FROM HALF THE POPULATION.

(E) THE RADICAL YOUTH LEADERS OF THE 1971 INSURGENCY HAVE BEEN FREED FROM JAIL, DEMONSTRATING THAT THE UNP IS NOT AFRAID OF THEM AS THEIR PREDECESSORS WERE AND IS MORE "GENEROUS" TO "OUR MISLED YOUTH" THAN THE SLFP. THIS HAS BROUGHT MORE OF THEIR ACTIVITIES INTO THE OPEN AND HAS ACCENTUATED DIVISIONS ON THE LEFT AS THESE FORMER RADICALS AGITATE AGAINST THE ALREADY DISCREDITED LSSP LEADERS N.M. PERERA, COLVIN DESILVA, AND CP LEADER PIETER KEUNEMANN. ALTHOUGH THESE LEADERS OF THE "TRADITIONAL" LEFT LOST THEIR SEATS IN THE LAST ELECTION, THEIR CONTINUING SUPPORT AMONG ORGANIZED LABOR IS UNCERTAIN SO ENCOURAGING DIVISIONS ON THE LEFT MAY BE PARTICULARLY IMPORTANT TO THE GOVERNMENT JUST NOW.

4. THE UNIONS

THE REAL UNKNOWN IS THE EXTENT TO WHICH TRADE UNION MEMBERS CAN BE MOBILIZED TO PRECIPITATE CUMULATIVE STRIKES AS OCCURRED IN PREVIOUS EFFORTS TO REDUCE FOOD RATIONS WHICH PARALYZED

THE ECONOMY AND FORCED ALL PREVIOUS GOVERNMENTS TO RETREAT
AND KEY RESPONSIBLE OFFICIALS TO RESIGN. N.M. PERERA AND
OTHERS ARE USING PARTY AND OTHER PUBLIC MEETINGS TO URGE
(AND THREATEN) A NEW "HARTAL", BUT PERERA HIMSELF ADMITTED
TO AMBASSADOR HE DOESN'T EXPECT ANYTHING LIKE 1953. AS IF
TO FORESTALL CONCERTED WIDESPREAD TRADE UNION ACTION, THE
GOVERNMENT HAS DEALT VIGOROUSLY WITH SEVERAL RECENT LABOR
DISPUTES AND THE PRIME MINISTER HAS THREATENED STERN ACTION
AGAINST "POLITICAL" STRIKES. SEVERAL RECENT STRIKE THREATS
HAVE PETERED OUT AND THE GOVERNMENT HAS NOT HESITATED TO USE
THE MILITARY AND POLICE TO MEET THESE THREATS. OUR PRESENT
GUESS IS THAT LACKING PROMINENT POLITICAL LEADERS AND IM-
PRESSED BY THE APPARENT READINESS OF JAYEWARDENE TO REACT
AGAINST POLITICAL STRIKES, DIVIDED AND COMPETITIVE TRADE UNION
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LEADERS WILL NOT BE ABLE TO PRECIPITATE SERIOUSLY DIS-
RUPTIVE STRIKE ACTION IN JANUARY. THIS ASSUMPTION WILL BE
TESTED IN DECEMBER WHEN THE CEYLON MERCANTILE UNION (CMU) HAS
CALLED FOR A ONE-DAY NATION-WIDE STRIKE, TENTATIVELY SET
FOR DECEMBER 20, TO PROTEST RESTRICTIONS ON FOOD RATIONS.
CMU IS SEEKING COOPERATION OF OTHER TRADE UNIONS.

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5. ECONOMIC TRENDS

ECONOMIC FACTORS WILL HAVE AN EFFECT ON WHAT CAN BE MOUNTED AGAINST THE GOVERNMENT DURING THE MARCH THROUGH MAY PERIOD. PRICES ARE ALREADY RISING FOLLOWING DEVALUATION, AND IT SEEMS UNLIKELY THAT IMPORTS WILL ARRIVE SUFFICIENTLY RAPIDLY TO OFFSET SUCH INCREASES, AS THE OPTIMISTS HOPE. REDUCED IMPORT RESTRICTIONS WILL PERMIT THE WEALTHY TO IMPORT CONSPICUOUS LUXURIES LIKE NEW CARS AND EASIER TRAVEL WILL SEE MANY WEALTHY TRAVELING ABROAD AS OF OLD. BOTH DEVELOPMENTS WILL DRAMATIZE CONTRASTS BETWEEN RICH AND POOR IN A POLICY WHICH FOR MANY YEARS HAS STRESSED WELFARE AT THE EXPENSE OF PRODUCTION. THIS WILL AGGRAVATE POLITICAL TENSIONS AND FEED RESENTMENTS OF THE HARD HIT MIDDLE STRATA WHO ARE POOR BY OUR STANDARDS BUT HAVE NEVERTHELESS BEEN CUT OFF FROM THE FOOD RATION. EASIER IMPORTS WILL ALSO THREATEN THE PROFITABILITY AND IN SOME INSTANCES THE VIABILITY OF NUMEROUS SMALLER BUSINESSES EXPANDED DURING THE PAST SEVEN YEARS.

6. THE CIVIL SERVICE

ANOTHER PROBLEM AREA IS THE BUREAUCRACY. THERE ARE MANY CONFIDENTIAL

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OFFICIALS WHO GENUINELY BELIEVE THE NEW MORE OPEN POLICY RISKS A RAPID FOREIGN EXCHANGE HEMORRHAGE IN THIS IMPORT-PRONE ECONOMY; THERE ARE OTHERS WHO CONCLUDE THAT ELIMINATION OF CONTROLS WILL DEPRIVE THEM OF OPPORTUNITIES TO MORE THAN DOUBLE THEIR SALARIES FROM BRIBES TO HASTEN PARTICULAR IMPORT LICENSES. BOTH WILL SEEK WAYS TO IMPEDE THE NEW ECONOMIC POLICY, REQUIRING UNUSUAL ADMINISTRATIVE VIGOR TO COUNTERACT.

7. THE GOVERNMENT PARTY

POLITICAL DIVISIONS WITHIN THE UNITED NATIONAL PARTY MAJORITY WILL BECOME MORE APPARENT. THEY ARE INEVITABLE WITHIN SUCH A LARGE MAJORITY IN ANY ELECTED ASSEMBLY. THEY WILL BE FOCUSING IN PART ON PERSONAL FACTIONS CONTENDING FOR THE PREMIERSHIP EVEN THOUGH WE THINK PREMADASA IS BY FAR THE MOST LIKELY VICTOR. UP-COUNTRY/CASTE/AGRICULTURAL INTERESTS WILL BE CONTENDING AGAINST LOW-COUNTRY/URBAN/WORKING CLASS INTERESTS. THUS FAR, THE PRIME MINISTER HAS MANAGED TO CONTAIN THEM WITHIN QUITE TOLERABLE BOUNDS. WHETHER THEY WILL BE AS MANAGEABLE WHEN HE WITHDRAWS FROM THE ASSEMBLY INTO THE PRESIDENCY IS NOT AT ALL CLEAR -- A PARTIAL EXPLANATION OF WHY HIS ACCESSION TO THE PRESIDENCY HAS BEEN POSTPONED TO FEBRUARY 4.

8. EMPLOYMENT

SOME IDENTIFIABLE EFFECTS OF AN ACCELERATED MAHAWELI GANGA EFFORT AS A FOCUS OF NATIONAL ENDEAVOR ARE BECOMING APPARENT. ITS PROMISE OF JOBS FOR THE MANY IS SIGNIFICANTLY UNDERCUTTING

RADICAL AGITATION FOR THE MOMENT AND PROMISES OPPORTUNITY FOR SKILLED ENGINEERS AND MANAGERS AND THUS MAY SLOW DOWN THE BRAIN DRAIN TO THE MIDDLE EAST IF HANDLED SKILLFULLY. A YET UNDEFINED COMPULSORY NATIONAL SERVICE PLAN MAY SERVE TO PROVIDE TEMPORARY JOBS FOR SOME OF THE UNEMPLOYED IF PROPERLY IMPLEMENTED. SHOULD THE ACCELERATED PROJECT REALLY GET ROLLING, CONFIDENTIAL

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HOWEVER, IT WILL DRAMATICALLY OVERBURDEN ALL SYSTEMS, INCLUDING PORT, TRANSPORTATION, FOOD SUPPLY AND CONSTRUCTION. IT WILL FORCE UP PRICES ON ALL FRONTS, INCLUDING RENTS IN COLOMBO, AND ABOVE ALL, TRANSPORTATION AND CONSTRUCTION COSTS OF ALL KINDS. WHETHER THE JOBS AND THE ECONOMIC ACTIVITIES GENERATED WILL PROVIDE SUFFICIENT SATISFACTION TO THE DESPERATE AND FRUSTRATED TO BALANCE THE INCREASED PRESSURES REMAINS AN AS YET UNANSWERABLE QUESTION. WRIGGINS

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